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FM AMEMBASSY DUSHANBE
TO RUEHC/SECSTATE WASHDC 0917
INFO RUEHML/AMEMBASSY MANILA 0167
RHEHAAA/NSC WASHINGTON DC
RUEHFR/AMEMBASSY PARIS 1620
RUCPDOG/USDOC WASHDC 0188
RUEHBJ/AMEMBASSY BEIJING 1982
RUEAIIA/CIA WASHDC
RUCNCIS/CIS COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RHEFDIA/DIA WASHINGTON DC
RUEHDBU/AMEMBASSY DUSHANBE 2788
RUEHIL/AMEMBASSY ISLAMABAD 2243
RUEHBUL/AMEMBASSY KABUL 2252

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SUBJECT: TAJIK COMPLACENCY WORRIES INTERNATIONAL MONETARY FUND

¶1. Summary. The Tajik government's relaxation of monetary and fiscal policy worried International Monetary Fund Mission Chief Carlos Pinerua at a quarterly briefing for donors on the Tajik economy Sept 4. Locally, the real estate, construction, and consumer markets continue to expand rapidly. However, the government's expansionary 2008 budget plans and unchecked inflation weigh negatively against the country's strong economic growth. End Summary.

¶2. Pinerua reported that a 60% growth in remittances from migrant workers channeled through the banking system fed an impressive 7.5% annualized growth rate in the first half of ¶2007. Some of this remittance growth represents increased use of the banking system for money transfers, but the booming local economy and import growth bears out strong remittance growth as well. Government revenue also increased largely from increased Value Added Tax collection, and the government is expecting a major budget surplus this year. However, the government has done little to contain inflationary pressures, and the draft budget [Note: which the government does not release to the public. End Note.] is highly expansionary with 40% budget growth in 2008 in nominal terms. This includes a 40% increase in government salaries and increases in social sector spending. The International Monetary Fund estimates annual inflation at 9.4% for 2007, but the Commonwealth of Independent States Statistical Committee puts inflation much higher at 18.3%, and the increased prices of foodstuffs and other products bear out this higher figure.

¶3. Pinerua told donors to keep pushing the government to relinquish control over the economy. De facto government quotas particularly in the agricultural sector hamper growth and efforts to reduce poverty. Government-directed lending by the National Bank could also prove hazardous, damaging the credibility of the banking sector. Pinerua believes that Tajik banks are well capitalized, however, and are generally able to withstand shocks. The banks may be tested by a proposed \$80 million bailout of the agricultural sector by the Asian Development Bank.

¶4. Tajikistan still does not record the nearly \$1 billion in Chinese loans on its books and has taken few steps to measure the actual value of these loans. China recently backed out of a deal to build a dam on the Zarafshan River due to Uzbek

pressure, and it is not known if they will find another investment project or will simply recant this part of the loan. At the Shanghai Cooperation Organization Summit in Bishkek, China was rumored to be considering an additional \$10 billion in loans for Central Asia, which could further weaken the Tajik economy should the government decide to take on more debt.

¶5. Comment. Consumer inflation is a growing concern among average Tajiks, and local government officials have attempted to artificially put a lid on price increases. Despite planned increases, Tajikistan still lags far behind on social sector spending. Meanwhile, the government continues its irresponsible spending on palaces and, potentially, a new presidential Boeing aircraft. Tajikistan's dependence on remittance income and on unconditioned foreign lending and investment, including from the Chinese Government, tends to undermine fiscal responsibility and dampen real economic reform. End Comment.

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